SERS-O-GRAM

A newsletter for members of the State Employees' Retirement System of Illinois APRIL 2000

Pending SERS Legislation

The year 2000 marks the second year of the 91st General Assembly. Traditionally, the second year is reserved for financial and emergency bills, but several new pension bills have been introduced this session, and the bills brought up last year are still alive.

After bills are introduced in the General Assembly, the Pension Laws Commission, composed of legislators and private individuals, meets to review all pension legislation before it moves further through the legislative process.

Perhaps the most talked about piece of legislation introduced this session is House Bill 3101, which provides an Early Retirement Incentive (ERI) in the year 2001.

This legislation is similar to the ERI of 1991, which let members purchase five years of age and service credit. However, the new ERI bill has not been acted on by the Pension Laws Commission as we went to press.

Senate Bill 1927, granting an unreduced retirement for any member with 30 years of service regardless of age, has been introduced but not acted upon.

In 1998, a flat formula became law for all regular members of SERS. This year, a flat formula bill (HB-3864) has been introduced for all alternative formula employees.

The rate of the flat formula is 3% per year for employees not coordinated with Social Security and 2.5% for coordinated employees. This bill also increases the maximum annuity for alternative employees to 80% of final pay.

Two bills that were introduced last year and approved by the Pension Laws Commission are still active. They include the purchase of military service with interest only accrued back to 1991 (HB 269), and retirement at any age once a member not coordinated with Social Security reaches 75% of their final average compensation at 34 years and 1 month of service (HB 123).

Proposals introduced last year to allow for several new or expanded service purchases are also alive.

They include: Secretary of State fellowships, personal service contract employment, Council of State Governments service, service credit during a layoff, credit for leaves of absence before 1982, and credit for service with the Metropolitan Pier Expo Authority.

The General Assembly is scheduled to adjourn sometime in mid-April, and return to Springfield for a session in late November or early December after the general election.

We will continue to monitor all pending legislation, and notify our members either through the next SERS-O-GRAM newsletter or a special mailing.

SRS & Y2K

Like most business computer operations, Y2K came and went with no problems to SERS. Our system, and our vendors & suppliers, all had critical information running smoothly on the fateful January 1, 2000.

We anticipate no mix-up or delays of SRS benefit payments, EFT transfers, or banking transactions in the future.

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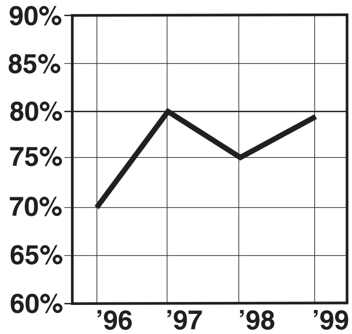
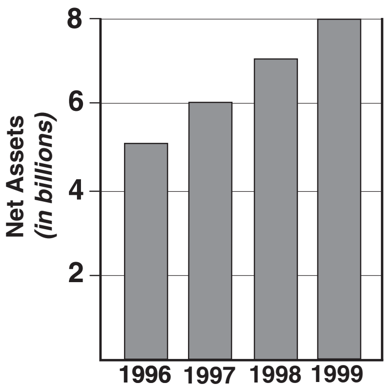
The Tale of the (Financial) Tape

Funded Ratio



Net Assets



Another fiscal year (FY99) has come and gone, and now is a good time to take a step back, review what has happened, and make plans for the upcoming year.

This past fiscal year was highlighted by a roller coaster ride in the financial markets. In spite of the rocky start for most stock markets (U. S. and foreign) in FY99, an explosive rally at the end of the fiscal year resulted in double digit returns.

Stocks and bonds, which make up about 90% of SERS's investments, moved up, then down, then back up again. The end result was a very good year, but not quite as spectacular as the investment returns of FY98.

The Illinois State Board of Investment (ISBI) manages the funds of SERS, along with those of the Judges' and General Assembly Retirement Systems in the ISBI Commingled Fund. The ISBI Fund earned a total rate of return of 12.9%, well above the long-term objective of exceeding the inflation rate by 4.5%, and at least equaling the 8.5% actuarial interest assumption.

SERS investments are used to pay current and future benefits, refunds, and the administrative expenses of SERS. These investments provide the reserves that are used to determine the financial strength or weakness of the retirement system.

Each fiscal year, the SERS actuarial consultant compares the ratio of reserves to total liability. This ratio helps SERS's management determine how the funded status of SERS is progressing.

As of June 30, 1999, SERS had a funding ratio of 79.9%, a 4.3% increase from the FY98 ratio. This increase is primarily the result of excellent investment performance and increased employer retirement contributions, offset somewhat by higher benefit payments to members and their beneficiaries.

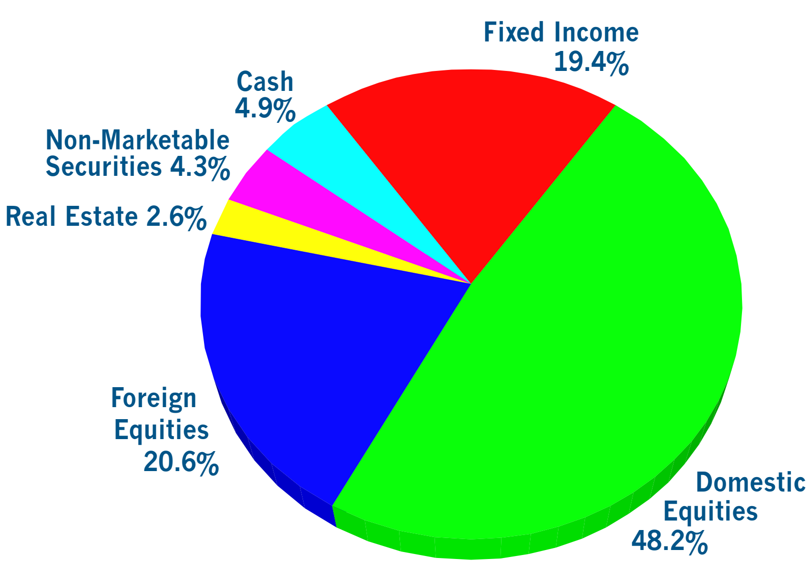
The State of Illinois has increased its employer retirement contribution in accordance with funding legislation passed several years ago. The increase, from $200.8 million in FY98 to $315.5 in FY99, has certainly helped increase the funding ratio described above. Employee contributions have also increased as a result of rising salaries.

The robust marketplace also helped increase the funded ratio, along with the continued increase in contribution income (both employer and employee). SERS begins fiscal year 2000 with an improving financial condition and a solid, experienced management team and staff.

SERS will continue to focus its attention on providing the best service possible to our members in an efficient and cost-effective manner. We look forward to the challenges of the new millennium.

How Your Money is Invested

(as of June 30 1999)



Statement of Plan Net Assets
June 30, 1999 and 1998

	1999	1998
ASSETS		
Cash	$ 100,578,832	$ 79,514,954
Receivables	25,972,613	17,870,937
Investments (at fair value)	7,861,470,281	6,969,135,972
Equipment (net of acc. depr.)	3,500,719	3,622,304
Total Assets	**$7,991,522,445**	**$7,070,144,167**
Total Liabilities	**$ 5,089,476**	**$ 5,649,337**
Total Assets to Pay Pension Benefits	**$7,986,432,969**	**$7,064,494,830**

Statement of Revenues & Expenses
June 30, 1999 and 1998

	1999	1998
REVENUES		
Contributions:		
Members	$ 159,580,234	$ 155,898,112
Employer	315,525,007	200,741,736
Total Contributions	**$ 475,105,241**	**$ 356,639,848**
Investment Income	**$ 908,121,794**	**$ 1,080,235,182**
TOTAL REVENUES	**$ 1,383,227,035**	**$ 1,436,875,030**
EXPENSES		
Benefits	$ 440,842,421	$ 399,440,085
Refunds *(including transfers)*	14,012,524	14,812,967
Administrative	6,433,951	6,154,373
TOTAL EXPENSES	**$ 461,288,896**	**$ 420,407,425**
Net Increase	**$ 921,938,139**	**$ 1,016,467,605**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	7,064,494,830	6,048,027,225
End of Year	**$ 7,986,432,969**	**$ 7,064,494,830**

Have You Moved?

If you plan on moving, be sure to notify your payroll office of any change to your name or mailing address. This small amount of information ensures the efficient distribution of your Benefit Statement and other SERS publications. An incorrect address can keep this material from ever reaching you.

SRS on the Internet

The State Retirement Systems is on the Internet. A Bulletin Board Section for each of the system's home pages is used to keep you informed of legislation, workshop schedules, and other important matters. A link to the other state agencies is also available at our site.

A summary of the annual financial report for each system, their respective current plan summaries, and a summary of the Illinois State Board of Investments annual financial report is also included.

Members may e-mail us with questions and/or comments at:

Internet: http://www.state.il.us/srs

E-Mail: ser@mail.state.il.us

What Americans Need to Know About Social Security

Benefit Distribution

Retired workers	62%
Disabled workers	17%
Spouses & children	12%
Survivors	9%

The core role of the Social Security program is a guaranteed monthly income to insure a basic level of financial support for retired or disabled working people, and their families & survivors.

If you become totally disabled, benefits will be paid to you and your family while you are disabled. If you die, your family is eligible to receive benefits.

The earliest age people can retire and collect a reduced Social Security benefit is 62, while age 65 is when people can retire and collect full benefits.

Your Social Security Statement

In October of 1999, the Social Security Administration began mailing earnings and benefit estimate statements to all workers age 25 or older who are not receiving a monthly Social Security benefit. You will receive this annual statement about three months before your birthday.

This statement provides you with an estimate of your Social Security retirement, disability and survivor's benefits you and your family could receive now and in the future. You can use the statement to plan for your financial future by seeing how your potential Social Security pension benefit fits in with your SERS pension, and your investments & savings.

Your statement also gives you an easy way to determine if your earnings are being accurately reported and recorded on your Social Security number. That's important, because the amount of your future benefits are based on your Social Security earnings record. The statement will explain how to correct inaccurately posted earnings.

Note: Some state employees may receive a SERS pension based on work not covered by Social Security (police, firefighters and employees who voted in 1968 to remain non-covered). This may cause the actual amount of Social Security benefits to be lower than that shown on the statement.

If this applies to you, ask the Social Security Administration for a free copy of their brochures "A Pension from Work not Covered by Social Security" and "Government Pension Offset."

Workers born after 1938 will see the full retirement age gradually increase. For instance, workers born in 1960 or later can't collect full Social Security benefits until age 67.

Receiving Benefits

Social Security was never designed to replace your income at a 100% rate, but to provide a portion of your overall retirement income. The remainder usually comes from your SERS pension, Deferred Compensation and any other investments you may have.

Social Security is the largest source of retirement income for most older Americans, and plays a major role in keeping seniors out of poverty. The amount of your benefit depends on how much you earned during your working years. This benefit will rise over the years with cost of living increases.

How it is Financed

Social Security is funded by money withheld from your paycheck, and the paychecks of over 135 million other working Americans. This money is used to pay Social Security benefits to approximately 42 million people.

As Americans continue to live longer and healthier lives, the changing ratio between retired and working people will increase, putting a strain on the benefits paid out of the Social Security system.

Nobody can say with any certainty what will happen with Social Security in the 21st century. From its inception, it has evolved and will continue to evolve to meet the needs of America.

Changes that caused uproars when they were first enacted have now become the norm. The only thing that seems impossible is abandoning the system altogether.

Spreading Your Money Around

The Deferred Compensation program offers you several investment choices. These choices let you allocate, or diversify, your assets among 10 different investment options.

Generally, your investment choices fall into four investment groups:

- **Stability** (low-risk) investments like cash funds.
- **Income** (medium-risk) investments like bond funds.
- **Growth & Income** (medium-risk) investments like stock & bond funds.
- **Growth** (high-risk) investments like stock funds.

Asset diversification is much like the old saying "Don't put all your eggs in one basket." By putting your eggs (dollars) in several different baskets (types of investments), you practice asset diversification by choosing between funds from the four investment groups.

Spreading your money across several different kinds of investments can help reduce your exposure to risk, since some investments are by nature more stable than others. In this way, diversification helps you balance risk and maximize returns.

Asset Allocation Gets Results

The graph to the upper right shows how a one-time investment of $100 would have grown in the 20-year period from 1978 to 1997 by investing the money four different ways: Stability funds, Income funds, Growth funds, and an Allocated mix of all three.

The Diversification mix would have performed better than the cash or bonds alone–without the possible risk of the stock funds.

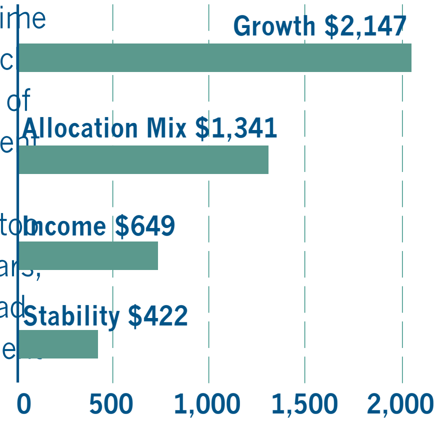
Putting Allocation Into Practice

Deciding how to diversify your investments is usually based on how much time you have until retirement, and how much risk you're willing to take. A good rule of thumb is, the closer you get to retirement, the less risk you should take.

But there's also a risk in playing it too safe. For example: Over the last 20 years, stability funds stayed only slightly ahead of inflation, while an allocated investment outpaced inflation.

No single investment or mix is right for everyone. As your needs change over time, strive for a blend of funds that meet your long-term financial goals.

Growth of $100 Over 20 Years (1978–1997)



Down With The Dow

The Dow's latest downward spiral may seem like a time to panic if you're participating in the Deferred Compensation program. But if you look closely, you'll see that the Dow doesn't really reflect the overall financial markets, since the Dow is made up of just 30 stocks.

The 374-point Dow decline on March 7 may seem like a market catastrophe. But one company, Proctor & Gamble, accounted for nearly a third of the dive. The P&G decline provided the best evidence yet that using the Dow as a reflection of the markets just doesn't make sense.

Too many investors fret about the Dow while ignoring the more reliable Nasdaq and Standard & Poor markets. Since September 1, the Dow is down 9.5%, while the Nasdaq is up 77%.

Investors have worried about the industrial economy ever since the Dow and Nasdaq parted ways last September, because the Dow Jones Industrial Average risks everything on the performance of it's 30 stocks. That's why it's easy for the Dow to get so far out of step with the larger markets.

As long as investors stay wedded to the Dow as a major financial yardstick, they'll get a distorted view of their investments. Remember, unless you're retiring in the near future, you're investing for the long-haul.

Want Abs of Steel?

If one of your fitness goals is washboard abs, consider yourself among the countless number of people trying to reduce their waistline through diets, exercise and crunches. But fitness directors say you're setting yourself up for failure if washboard abs are your only fitness goal.

Sculpted abdominal muscles don't come from trying to spot-reduce, but from an overall fitness program that includes exercise and a healthy diet. You can do crunches until you're blue in the face, and still not see much progress toward those washboard abs.

Most people want firmer abs to improve their overall appearance, but a stronger stomach offers much more–it usually reduces stress on the lower back since the stomach muscles act as a posture stabilizer. And weak abdominal muscles cause back problems in eight of ten Americans.

Fitness experts suggest that people who want to strengthen their abdominal muscles should first begin a fitness program to boost their heart rate and burn fat.

This can be achieved through any aerobic exercise: brisk walking, jogging, bicycling, swimming or floor aerobics.

The key to success in any fitness program is discipline. If you stick to your overall fitness program and work towards losing weight and firming abdominal muscles, you will see results.

Here are three basic abdominal exercises for beginners.

- Basic crunches: Lie on the floor, hands behind head, elbows flared and knees bent. Press the lower back to the floor. Contract the abdominal muscles by pulling shoulders up towards ceiling. Lower your torso and repeat 15 times.
- Diagonal crunches: Lie on the floor, hands behind head, elbows flared and knees bent. Press the lower back to the floor. Place left ankle over right knee. Raise and twist right shoulder toward left knee. Repeat 15 times then switch sides.
- Pelvic tilt: Lie on floor, knees bent, back flat. Slowly tuck buttocks up and contract. Release and repeat 15 times.

TIPS TOWARD YOUR FITNESS GOALS

- ***Think Differently: Visualize yourself as a moving person, not a sitting person.***
- ***Set small performance goals that you can measure, such as slowly increasing your mileage.***
- ***Define success in terms of what you can accomplish daily. Is climbing the stairs becoming easier?***
- ***Avoid the scale, especially if you've started weight training.***
- ***Don't measure success by looking in the mirror.***
- ***Allow yourself setbacks–they're inevitable. Remember, you're in it for the long haul.***

Fitness Goals

Fitness isn't just your workout, it's about shaping your life. Research has shown that much more than workouts affect your health and well-being. Relationships, career satisfaction, stress management, and necessary health screening tests all affect overall health.

Most people would probably have "losing weight" as their main fitness goal, because we usually work out to ***look*** good, instead of focusing on ***feeling*** good.

It's usually futile to tell someone who wants to lose weight to forget about weight loss as a goal. But that may be just what they need to succeed.

Professional athletes approach goals from a performance angle, focusing on what they need to do. When you're focused on achievement through performance, goals are incremental (such as walking an extra half-mile) and weight loss takes care of itself.

Achieving what you want with your body begins by respecting it. Treat it well, physically and mentally, and it will reward you back.

Sensible Steps to Building Wealth

1. Recognize the power of compound interest. Few people can get rich from their wages alone. By taking advantage of compound interest, you'll earn interest on top of interest by letting your investments accumulate and build on themselves.

2. Resist small temptations today for big payoffs tomorrow. "Don't sweat the small stuff" is a popular saying in the U. S., but thinking about the financial consequences of at least some of the small stuff—unnecessary expenses and bad habits—have a way of adding up to a sizable fortune lost. Penny-pinching is the fine art of deciding if you really need something.

3. Realize the fortune of taking care of yourself. Regular exercise and a healthy diet can make you wealthier by increasing your earnings and lowering your medical bills. You can also expect to live longer, which allows you to work and save longer and let your investments compound for a longer period of time.

4. Get a college education. It will pay big dividends in higher wages. The average college graduate makes about $30,000 more a year than the average high school graduate. A good education also opens up the wonders of the world which will enrich your life regardless of how much money you have.

Recent economic data found U. S. savings rate at an all-time low. You should put 5 – 10% of your income into a standard savings account. This money can then be used for any emergency that may arise. Some experts see contributions to 401k accounts and stock securities as another way of saving money.

5. Consider the financial benefit of marriage. Married people earn more and have more overall wealth than unmarried people living separately or together. Married couples can also economize on expenses with one household and two incomes. They tend to live longer, giving them more time to work, save, and invest.

6. Don't try and beat the market. Small investors often dream of beating the market by finding the right stock at the right time (Microsoft or Amazon.com). But the risks involved with major stock losses can devastate your assets. Most small investors shouldn't expect to beat the market, since 9 of 10 financial gurus couldn't do it last year.

Socking money away in any of the mutual funds offered by the State of Illinois' Deferred Compensation plan should give you a significant rate of return over the long haul while minimizing losses.

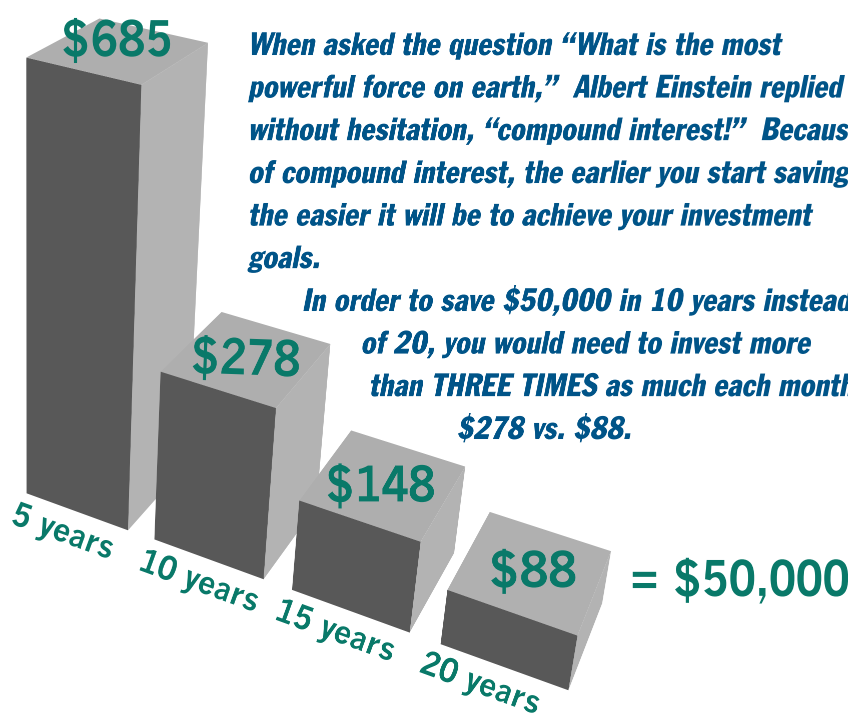
Simple Do's & Don'ts

DON'T indulge in wasteful habits. A regular cup of coffee over a latte will save you about $1 a day.

DON'T gamble away your future. You have a better chance of being struck by lightning then winning the lottery.

DO stay healthy. Exercising every day will lower your medical bills and give you a longer life.

DO reconsider that luxury car. If you buy a dependable used car after college instead of a flashy sports car and invest the price difference, you'll have around $500,000 at retirement.



When asked the question "What is the most powerful force on earth," Albert Einstein replied without hesitation, "compound interest!" Because of compound interest, the earlier you start saving, the easier it will be to achieve your investment goals.

In order to save $50,000 in 10 years instead of 20, you would need to invest more than THREE TIMES as much each month–$278 vs. $88.

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2000 Preretirement Workshops

INVESTING IN YOUR FUTURE

For employees under age 45.

Apr. 25	Chicago
May 23	Chicago
Jun. 13	Carbondale
Jun. 15	Rockford
Jun. 20	Chicago
Jul. 11	Bloomington
Aug. 15	Charleston
Sep. 12	Joliet
Sep. 19	Mt. Vernon
Sep. 26	Matteson
Oct. 3	Springfield
Oct. 17	DeKalb
Oct. 24	Marion
Nov. 14	Springfield

EDUCATION FOR TOMORROW'S CHOICES

For employees 5–15 years from retirement.

May 2 & 3	Chicago
May 16 & 17	DeKalb
Jul. 18 & 19	Peoria
Aug. 22 & 23	Chicago
Sep. 19 & 20	Schaumburg
Sep. 26 & 27	Bloomington
Oct 3 & 4	Chicago
Nov. 14 & 15	Chicago

COUNTDOWN TO RETIREMENT

For employees 3 years from retirement.

Jun. 15	Effingham
Aug. 31	Collinsville
Oct. 5	Peoria
Oct. 12	Chicago
Oct. 26	Chicago
Nov. 2	Mt. Vernon
Nov. 16	Springfield & Chicago

Contact your agency Retirement Coordinator for information on registering for our workshops. You can also contact the SERS Field Services Division at 217-785-6979.
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